

# Impact of Branchless Banking in Indian Rural Areas as a Part of Financial Inclusion

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## ABSTRACT

The Indian Government effort to build a more inclusive financial system focuses on lower income people who live in rural areas and who might have limited and infrequent needs for financial services. Private banks do not seek out poor people as customers because poor people typically do not figure into banks' business strategies to expand and improve their operational and financial performance. Over the last three years, the Reserve Bank of India (RBI) and the Government of India have adopted financial inclusion as a policy objective and have taken actions to move toward the goal of universal access to financial services. They have accepted branchless banking as a feasible proposition for acquiring clients and delivering services. On a global level, branchless banking has adopted both bank-based and nonbank-based models; however, only bank-based models are permitted to operate in India. This paper focuses on branchless banking models that can serve poor and marginalized section of Society.

**Key words:** Branchless banking, % growth of ATM, Modes of Branchless Banking.

## INTRODUCTION

Branchless banking is a distribution channel strategy used for delivering financial services without relying on bank branches. While the strategy may complement an existing bank branch network for giving customers a broader range of channels through which they can access financial services. Today, Indian banks seem to encourage clients to stay away from bank branches even as their clients continue to receive improved financial services. Services through ATMs, internet and mobile phones have made it possible to improve service quality, reduce the time spent by customers putting through transactions, and reduce traffic in branches. Branchless banking channels include (i) ATMs, (ii) electronic banking based on the Internet, (iii) banking correspondents and banking facilitators, and (iv) mobile banking. Prepaid instruments also are likely to be used in the near future, further extending the frontiers of branchless banking. In the context of banking the poor and achieving financial inclusion, the banking correspondent and facilitator models as well as the mobile telephony-based model are highly relevant. ATMs and Internet banking address the needs of the urban population, which has high incomes and little time to spend going to the bank, better than they address the needs of the rural poor. However, ATMs and Internet banking can also be used to improve access to financial services to the rural poor.

### Branchless Banking Advantages

1. Economies of Large Scale Operations
2. Spreading of Risk
3. Economy in Cash Reserves
4. Diversification on Deposits and Assets
5. Cheap Remittance Facilities

6. Uniform Interest Rates
7. Proper Use of Capital
8. Better Facilities to Customers
9. Banking Facilities in Backward Areas
10. Effective Control

## ROLE OF GOVERNMENT AND RBI

The Government of India has established a vision for electronic payments and agents and aims to make a substantial investment to expand these capabilities across India. The Government of India recently released a task force report on a unified payments infrastructure linked to the biometric Aadhaar number. It recognizes the value of electronic payments to both cut costs for the government and bring convenience to the end recipients. It also sees G2P as a major flow of capital which can prime the pump, while recognizing that much more ought to flow over branchless banking channels. The Government of India also proposes to pay a 3.14% fee to banks for delivering G2P payments – a significant shift in the business case for banks. But these are all solvable challenges and the new momentum for branchless banking will shape the financial inclusion agenda in India in the coming months and years. The Reserve Bank of India has removed restrictions on agent (customer service point) exclusivity. Earlier restrictions limited one agent to transact on behalf of only one specific bank, but this has now been lifted. Customers can now transact at customer service points (CSP) of one bank even if their accounts are held at another bank. This allows the entire banking system to be more efficient by sharing customer service points and lowering overall costs.

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It also brings agent interoperability on par with ATMs in India. Such interoperability is more consistent with the views of most other central banks around the world.

## MODES OF BRANCHLESS BANKING

There are following modes used in India that could substantially accelerate financial inclusion:

1. **A mobile payments switch:** To take full advantage of the banking network across India, public-private collaboration has built the Inter-bank Mobile Payment Service (IMPS). This new switch allows mobile phone-initiated transactions to pass from the bank account in one bank to an account at another bank. If fully leveraged across the banking network, it would counteract some of the barriers posed by India's size and regionally fractured banking presence.
2. **Unique identification:** The Unique Identification Authority of India has begun to roll out registration of the unique identification number with matching biometrics. As this becomes more widely available, it could ease KYC processes and reduce the friction of mass branchless banking operations.

## LITERATURE REVIEW

The Report of the Committee on Financial Inclusion (2012) reveals that, despite a large banking system and cooperative credit network, many poor households in India lack access to financial services. Approximately 25 percent of adults have credit accounts in the formal financial sector, and 82 percent of adults have savings accounts. While the government and Reserve Bank of India (RBI) have taken steps to establish a widely distributed presence of bank branches, India's large population has made it difficult to ensure financial services are accessible to all those who need them. Since 2011 practices have been put into place that make branchless banking possible beyond the automated teller machine (ATM) network. According to a 2012 survey, 62% of respondents said the Internet is their preferred banking method. Only 20% selected branch banking - a sharp decline compared with 2007 when 40% of respondents preferred to bank at a branch. The 2012 budget announced a plan to shift some public subsidies (such as \$12.5 billion in fertilizer annually) to a system where payments will be delivered directly into the beneficiaries' accounts. This change would funnel large payments volumes through branchless banking and, among other benefits, bring clients into a deeper banking relationship. This recent policy shift adds to ongoing state efforts to transfer National Rural Employment Guarantee Act wage payments electronically.

## OBJECTIVES

1. To study the percentage growth of ATM used by public sector banks, private sector banks and foreign banks.
2. To measure the performance of selected models of branchless banking

### Scope of the study

Data from March 2010 to March 2012 is taken in to consideration from banking sectors (selected parameters) for the research.

### Data sources

Secondary data has been collected from among the available sources such as journals, magazines, and website.

### Data analysis

The data collected from the research are classified and tabulated. Descriptive statistics such as percentages, dispersion charts, diagrams and graphs etc. are used for presentations.

## TRENDS IN BRANCHLESS BANKING

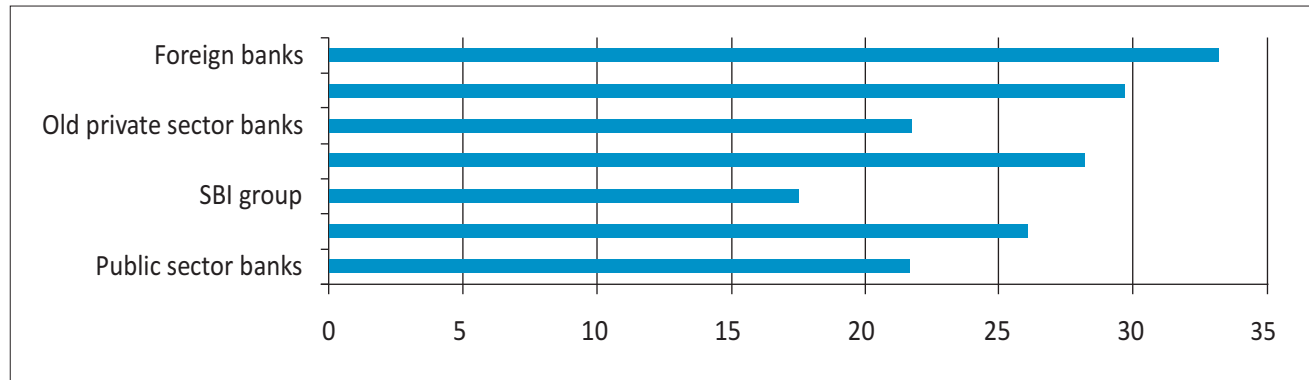
Branchless banking models directly operated by banks. ATMs have caught the fancy of both banks and clients. Most new private sector banks in India have more ATMs than branches. Ease of dealing with customers efficiently and the ability to account for transactions in real time has made ATMs an indispensable part of banking. Customer protection issues involving ATMs stem from both technology and fraud. While customer awareness could reduce, if not prevent, fraud, satisfactory solutions to deal with ATM failure still need to be created. Remote monitoring of ATMs, repeated cautionary messages to ATM users, and security-related screen prompts while using ATMs, etc., tend to reduce ATM-related problems for customers. Indian Bank has introduced biometric ATMs to overcome the traditional problems associated with ATMs. This is being tested in rural areas.

**Table ATMs substitute for branches ATMs of Scheduled Commercial Banks (As at end-March 2010,2011,2012)**

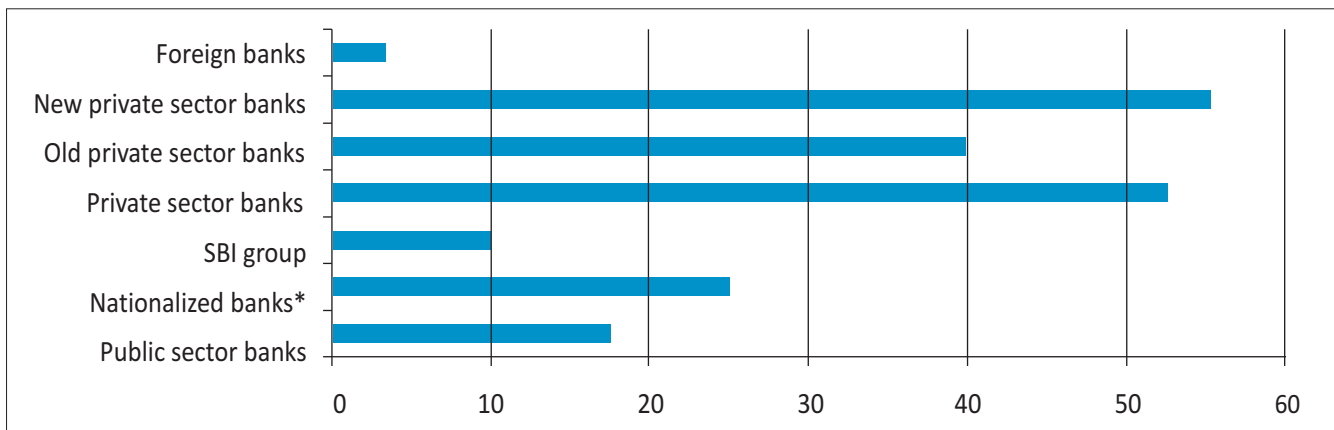
Sr. No	Bank Group	Total number of ATMs(on sites and off sites)-2010	Total number of ATMs(on sites and off sites)-2011	Total number of ATMs(on sites and off sites)-2012	% Growth of Total number of ATMs(on sites and off sites) between 2010-2011	% Growth of Total number of ATMs(on sites and off sites)between 2011-2012
1	Public sector banks	40680	49487	58,193	21.64946	17.5925
1.1	Nationalized banks*	19702	24836	31,050	26.05827	25.02013
1.2	SBI group	20978	24651	27,143	17.50882	10.10912
2	Private sector banks	18447	23651	36,079	28.21055	52.54746
2.1	Old private sector banks	3390	4126	5,771	21.71091	39.86912
2.2	New private sector banks	15057	19525	30,308	29.67391	55.22663
3	Foreign banks	1026	1367	1,414	33.23587	3.438186
	All SCBs(1+2+3)	60153	74505	95,686	23.85916	28.42896

Note: \*: Excluding IDBI Bank Ltd.

**Graph-1 :% Growth of Total number of ATMs(on sites and off sites) between 2010-2011**



**Graph-2: % Growth of Total number of ATMs(on sites and off sites) between 2011-2012**



## Data analysis and Interpretations

There are following findings:

1. Automated Teller Machines (ATMs) have gained prominence as a delivery channel for banking transactions in India.
2. ATMs facilitate a variety of banking transactions for customers, their main utility has been for cash withdrawal and balance enquiry
3. Most banks prefer to deploy ATMs at locations where they have a large customer base or expect considerable use
4. ATM used continuously growing.
5. Foreign Banks maximum % increased ATM and % least old private banks.

## CONCLUSIONS

The Indian banking industry in India is in developing stage therefore there is an immediate need is required to embark on capacity building arrangements and modernize the banking system by employing the state of art technology being used anywhere in the world. Day by day improvements in import and export business, international trading and relationships, the current banking system is little bit short of providing efficient and dependable services. Therefore all operating banks in India should recognize the needs and introduce the new software and technologies like electronic banking, mobile banking, international banking services and more ATM machines. The government has to implement new policies and give free hands to their banks and then only it is possible to overcome the challenges.

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